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UNCLAS SECTION 01 OF 02 CAIRO 000265

SENSITIVE
SIPDIS

H PLEASE PASS TO SENATOR LIEBERMAN

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TAGS: [PREL](#) [ECON](#) [PGOV](#) [OREP](#) [KPAL](#) [EG](#) [IS](#)
SUBJECT: SCENESETTER FOR CODEL LIEBERMAN'S VISIT TO CAIRO

Summary

1. (SBU) Senator Lieberman, welcome to Egypt. Your visit comes at a pivotal time for Egypt and the region. A ceasefire is almost in place between Israel and Hamas, which the Egyptians are seeking to cement. The U.S., European countries, and regional governments are searching for ways to put in place security arrangements to allow the flow of humanitarian assistance to Gaza. Many see the new U.S. administration as a cause for cautious optimism in both the bilateral relationship and in U.S. engagement with the region. Senator George Mitchell visited Egypt in late January for his first trip to the region as U.S. Special Envoy for Middle East Peace and will return to Cairo March 1. Secretary Clinton plans to attend a March 2 Gaza Reconstruction conference the Egyptians are hosting in Cairo. We have requested meetings for you with President Mubarak, intelligence chief General Omar Suleiman, and Foreign Minister Ahmed Aboul Gheit. End summary.

Israel-Palestine

2. (SBU) The election of President Obama generated much optimism in Egypt and hopes that the new administration would quickly focus on problems in the Middle East. In particular, the Egyptian leadership wants the U.S. to urgently address the Israeli-Palestinian conflict. The Egyptians have long served as an intermediary linking us, the Israelis, and the Palestinians. Since the January 2008 Hamas breach of the Egypt-Gaza border, the Egyptian role has shifted to focus on intra-Palestinian reconciliation and the establishment of a lasting Hamas-Israel ceasefire. The Egyptians are now working to conclude and cement the Israeli-Hamas ceasefire for 12 to 18 months, giving them time to help forge a non-partisan Palestinian government. They believe that Palestinian reconciliation is a prerequisite to any major next step in Gaza, as neither the Egyptians nor the international community can work with Hamas as a partner on security, political or economic reconstruction issues. The Egyptians will tell you that limiting movement in and out of Gaza is necessary, but will urge that you impress upon the Israelis the need to maintain adequate humanitarian inflows to Gaza. The Egyptians will stress that keeping borders open for legitimate trade and forging effective measures against smuggling go hand-in-hand.

Other Regional Issues

3. (SBU) On Iraq, Egypt, although still concerned that Iraq's Shia government is too prone to Iranian influence, has shown increasing confidence that Iraq has turned the corner. Foreign Minister Aboul Gheit completed a successful trip to

Baghdad in October 2008 and is moving forward to reopen its embassy in Baghdad. On Iran, Egypt is concerned by rising Iranian influence in the region, has supported UN sanctions, and is increasingly active on countering Iran, e.g. in Gaza and to some extent in Lebanon, working with Saudi Arabia and other Arab states to support Lebanese political and territorial sovereignty.

Internal Politics and Economics

14. (SBU) We continue to work towards democratic reform in Egypt, including the expansion of political freedom and pluralism, and respect for human rights. Egyptian democracy and human rights efforts, however, are being stymied, and the GoE remains skeptical of our role in democracy promotion, complaining that any efforts to open up will result in empowering the Muslim Brotherhood, which currently holds 86 seats in Egypt's 454-seat parliament. An ongoing challenge remains balancing our security interests with our democracy promotion efforts.

15. (U) Economic reform has been, on the whole, a success story, although Egypt still suffers from widespread poverty affecting of 35-40% of the population. Reforms in trade and tax policy, financial reform, privatization and increased transparency have led to 6-7% economic growth over the past three years. Foreign investment increased from around \$3 billion in 2005 to \$11 billion in the last year, mostly in the petroleum sector, though growth in foreign investment appears to be dropping off. Despite this success,

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significant problems remain, including high inflation, high levels of poverty, and unemployment, and endemic corruption. Egyptian-U.S. trade has more than doubled in the last four years, reaching almost \$9 billion in 2008. The U.S. exports to Egypt about twice as much as it imports. Egyptian banks operate very conservatively and have been spared involvement in risky financial products, but the effects of the global economic crisis on Egypt are beginning to be felt. As the economic crisis worsens, Egypt remains vulnerable as exports, Suez Canal revenues, tourism, and remittances -- its largest sources of revenue -- are all down and likely to continue to fall.
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